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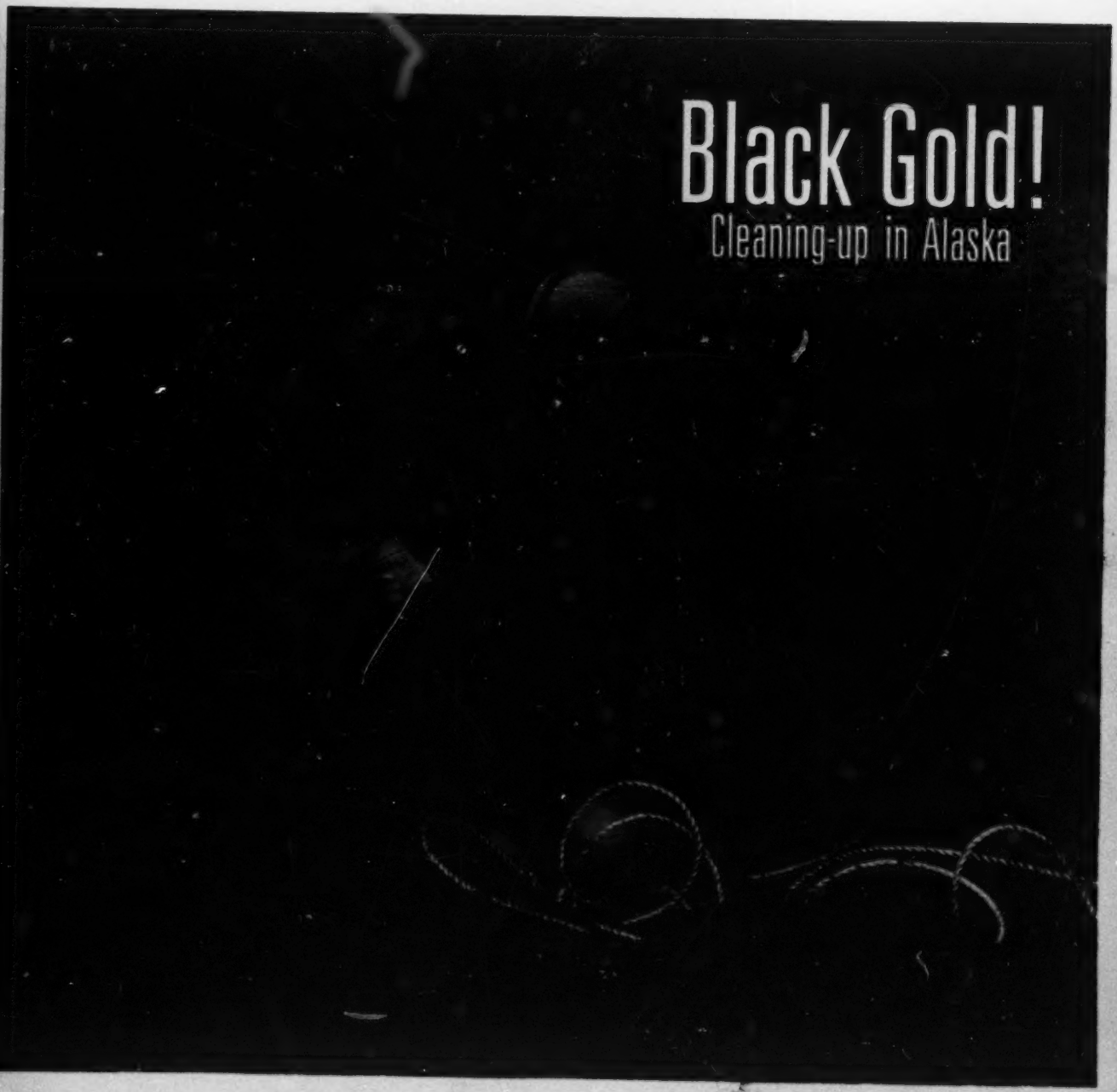
SEPTEMBER 1989
A CAHNERS PUBLICATION

Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Electrical Market Analysis



Industrial Distribution

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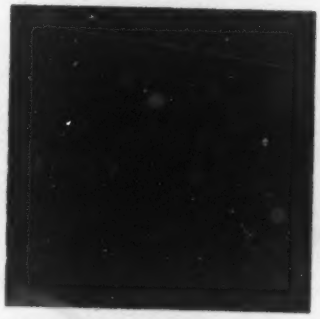

Distribution has played a key role in the clean-up of Alaska's shoreline.

Cover photography by John G.F. Bonnanzio

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Combatting power shortages and controlling power costs are two beacons electrical distributors follow to gain market share.

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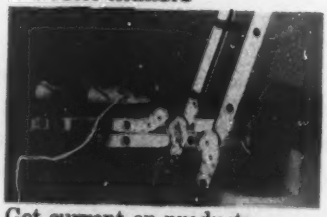

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ID's Exclusive Market Report

Power issues light up electrical market

Combatting power shortages and controlling power costs are two beacons electrical distributors follow to gain market share.

By George M. Fodor
Managing Editor

To function competitively, businesses and manufacturers need ample supplies of dependable power. Each blackout, brownout or voluntary cutback during production cycles decimates productivity and diminishes competitiveness. However, despite this ongoing need for quality power, utilities are capable of only a finite generating capacity.

These competing pressures—growing demand for power and limited, closely regulated supplies—are having major impacts on how many electrical distributors do business in 1989.

For example, at the recent *Electric '89* exposition, the largest single product category on display included power conditioning equipment such as power line isolators and protectors, surge suppressors, uninterruptible power supplies, and related maintenance products. While many of these units are engineered for use with telecommunication/PBX systems, mainframe computers and automated manufacturing systems, others are tailored to the needs of variable speed devices, security and fire alarm systems and microcomputers.

John J. Mulcair, President of International Power Machines Corp. (Garland, TX), helps put this lower end of the market in perspective when he notes that "only 16% of all computer systems have power backup." That means that 84% of all your

Electrical customers demand service, and Bernard J. Erickson has O.K. Electric positioned to meet that demand.

customers who use computers are potential buyers of products that condition or control the delivery of electrical power. Other power conditioning revenues can come from customers who use any type of microprocessor-based process control equipment.

Another insight on the workings of the electrical market comes from Ernie Schenk, Manager of Investor Relations for Square D Co., who points out that "in 1988, more dollars were spent on repair, rehabilitation and renovation work than were spent for new construction." (See the accompanying chart for a break-out of products and volumes that electrical distributors say comprise their businesses.)

LIGHTING UP SALES

A special segment of this repair, rehabilitation, renovation market—one that's brightening the sales picture for many electrical distributors—is comprised of plants and offices that have yet to upgrade their lighting systems.

As an example of how lighting impacts today's electrical distribution business, Bernard J. Erickson, Executive Vice President of O.K. Electric Supply Co. (Perth Amboy, NJ), explains that his firm has added lighting audits to the list of value added services he offers his industrial and commercial clients. "We have lighting analysis software," Erickson reports, "that runs on an AT-class micro which is equipped with a math coprocessor."

Erickson's lighting audit process involves extensive on-site data collection and subsequent computer-based savings analysis. But the results can be impressive. "We saved one customer nearly $¼ million in power related costs," he says, "including a $15,000 rebate from the supplying utility."

Close and productive relationships are built into the way O.K. Electric conducts their lighting audits. As Erickson explains, the process begins with candid discussion about how much a customer pays for power; what the appropriate demand charges are, if any; and the number of operating hours applicable to each piece of equipment.

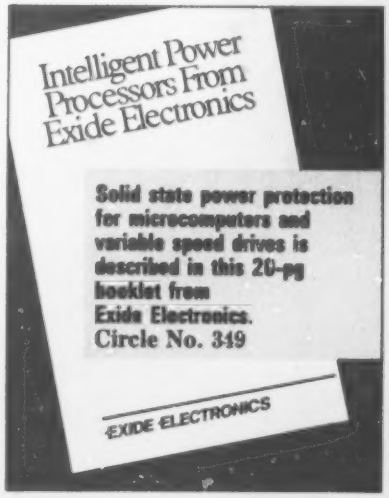
Phase two of the audit—a physical tour of the facility—gets O.K. Electric's salesperson onto the plant floor to take measurements and count and locate existing light fixtures. During this phase the astute salesperson takes advantage of the opportunity to gather additional information and insights on a full range of products O.K. Electric can supply.

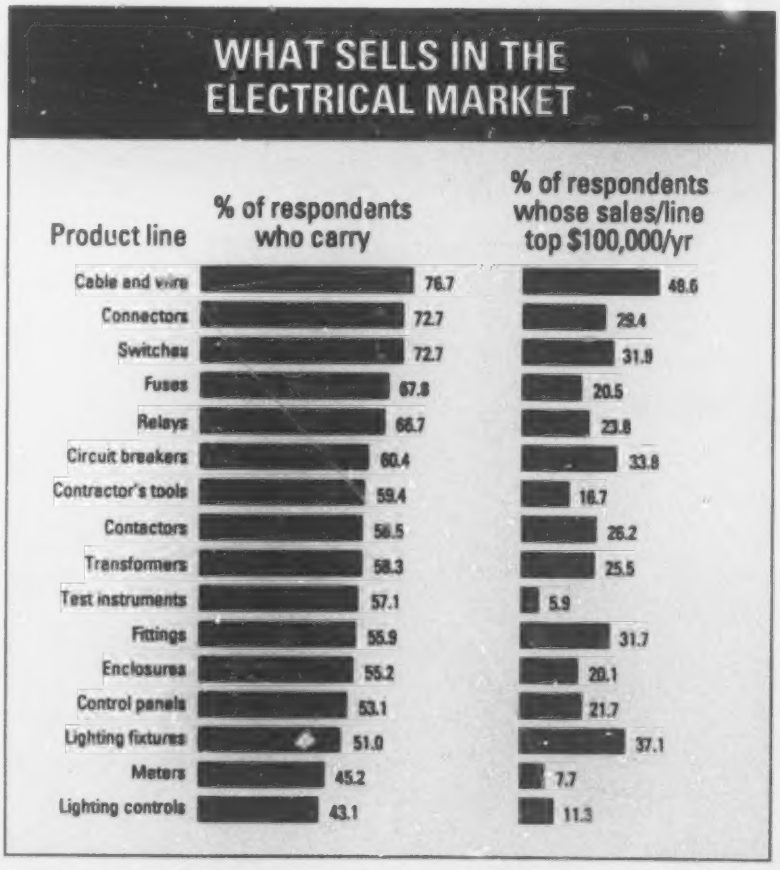
After the data collection phases are complete, Erickson continues, the lighting audit moves into the analysis stage wherein savings are scrutinized with regard to maintenance, labor and relamping costs. According to Erickson, two aspects of the overall analysis seem particularly helpful in converting prospects into customers. "We run a cash flow analysis," he says, "that includes payback projections. These come out of a proprietary portion of our analysis software, and having those kinds of figures available makes it easier for customers to justify investing in the work we propose."

SERVICE REGAINS PRIMACY

Erickson, whose family has been in the distribution business for 40 years, sees the user's willingness to accept lighting audits and pay for implementing recommendations as proof that quality products and complete service influence electrical buying decisions. "In the early '80s," he says, "the market shifted from being service-oriented to being commodity-driven and price conscious. Now, customers are looking for quality and service again."

O.K. Electric's customer base consists primarily of industrial and insti-


Intelligent Power Processors From Exide Electronics
Solid state power protection for microcomputers and variable speed drives is described in this 20-pg booklet from Exide Electronics.
Circle No. 349
EXIDE ELECTRONICS



A survey of 1,500 ID readers who stock electrical equipment and related supplies reveals the breadth, depth and diversity of the electrical market.

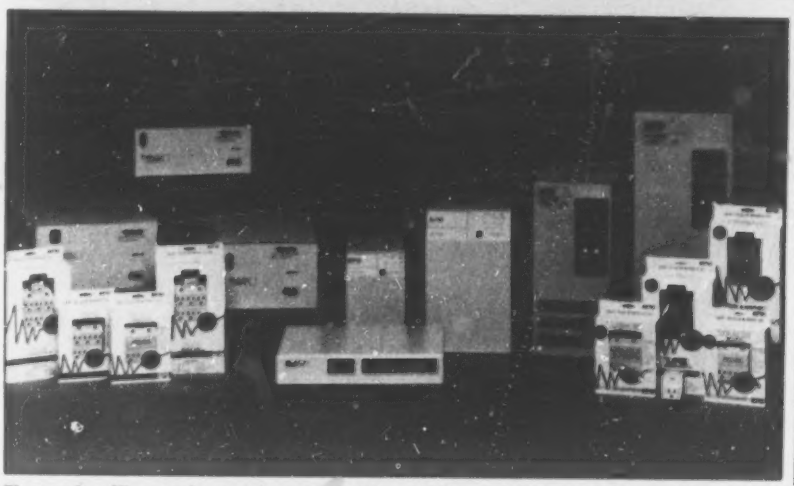
tutional accounts, and the firm's line card touts several motor, motor control, raceway, and power distribution equipment suppliers, as well as lists of tools, testers and anchoring devices.

Ericksen reports that a key aspect of O.K. Electric's service orientation is the firm's committment to technical seminars. In recent years, either by working in-house or by co-operating with suppliers, the distributorship has developed seminars on the following topics:

- Wire, cable and the National Electric Code;
- Wiring devices;
- Telephone systems;
- Power protection (uninterruptible power supplies);
- Transient voltage surge suppressors;
- Fundamental lighting design;
- Generating station lighting;
- AC motor theory;
- Adjustable frequency drives;
- Safety and economy;
- Hazardous areas and the National Electric Code;
- Solid state motor controls and variable frequency drives.

Offering seminars, of course, not only fills service functions, but also serves marketing needs. For example, during a recent *Meadowlands Industrial Show*, O.K. Electric put on a series of two- and three-hour seminars. Erickson reports that during one morning session alone, only "ten of 110 attendees" were representatives from existing customers.

That's 100 new contacts in a single seminar, and because these new contacts showed up at the seminar out of their own self interest, they presumably arrived ready to respond positively to any sales and marketing messages that Erickson built into his presentation.



Electronic office equipment is protected by a full range of surge suppressors and power supplies from General Power Corp.
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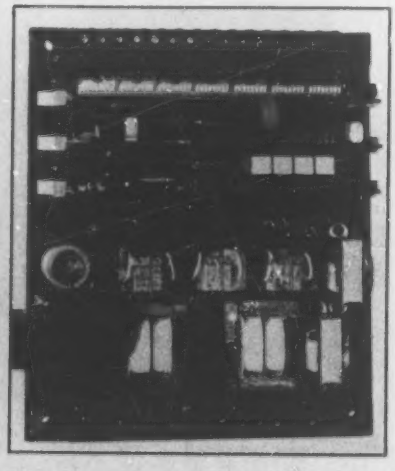


Microprocessor control panels have two outputs for use with ASCO automatic transfer switches.
Circle No. 352

PLUGGING IN SYSTEMS

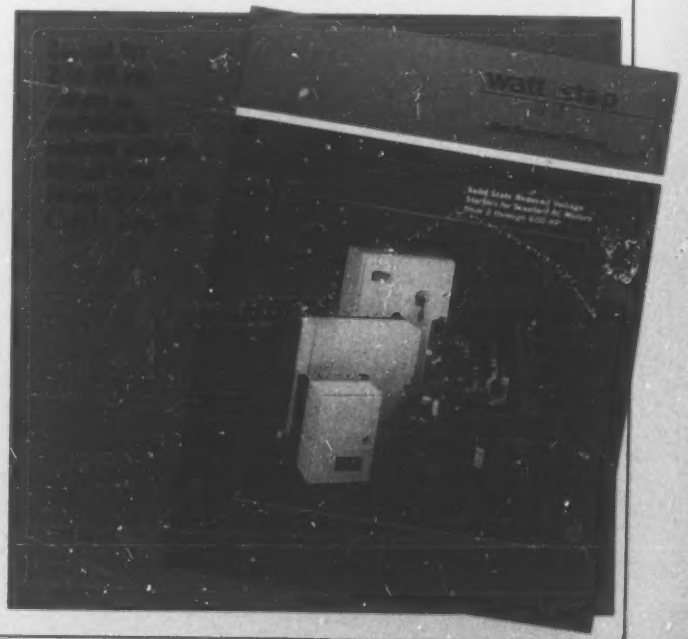
O.K. Electric's service philosophy extends even to the way the firm designs systems contracts to meet specific customer needs. Erickson says that this "tailor-made" approach to systems contracting has served the company well for more than 20 years. In fact, he says, systems contracts now account for about 25% of O.K. Electric's overall business.

"A lot of distributors approach systems contracts strictly on the issue of lowest price," Erickson argues. "What we try to do is offer the customer a consultation on what we feel is the best method for reducing customer inventory and paperwork."

O.K. Electric's view of systems contracts, Erickson says, involves five parts. The first item, he says, is determining how the customer orders. This means finding out which type of order form is used, and whether orders are run through facsimile machines or an electronic data interchange (EDI) system.

Next on the list, he continues, is evaluating the customer's inventory situation. The idea here, Erickson says, is to determine useage patterns and to identify items which the customer can eliminate altogether from his inventory. For example, this initial investigation may reveal that since O.K. Electric stocks an ample supply of 'D' batteries on the shelf, there is no need for the customer to stock a large quantity of 'D' batteries, especially if weekly useage is small and O.K. Electric delivers within 24 hours anyway.

Once the products to be covered



by the systems contract are specified, the third task on Erickson's list involves deciding which order entry system is best for the customer.

Earlier this year, O.K. Electric implemented the EDI 2000 option of the ADP Distribution 2000 management package. This gives the distributorship the ability to work with that growing list of customers who have recently implemented advanced computer-to-computer communication systems.

On the other hand, Erickson continues, "we don't impose any set format or system on a customer. We're set up to communicate with facsimile machines, through the mails, or over the telephone. We work to meet the customer's needs."

At this stage, O.K. Electric creates a computer file of part numbers for the specified materials. For each customer who chooses the EDI option, Erickson provides a 40 Mbyte tape that contains a contract-specific listing of that customer's prices which the distributorship holds firm for a set period.

After the contract has run for six months, O.K. Electric generates a detailed useage report. "Many end users don't know what they have on their shelves," Erickson says. "Our useage reports give each customer a handle on the items that he or she can ultimately eliminate from his or her inventory."

A fifth and final aspect of O.K. Electric's approach to systems contracts focuses on technical support. Erickson points out that all his salespeople are technically trained and must visit systems contract customers each week. A major part of the salesperson's job is to monitor and analyze all aspects of the account and determine new products that will help the customer reduce or control operating costs.

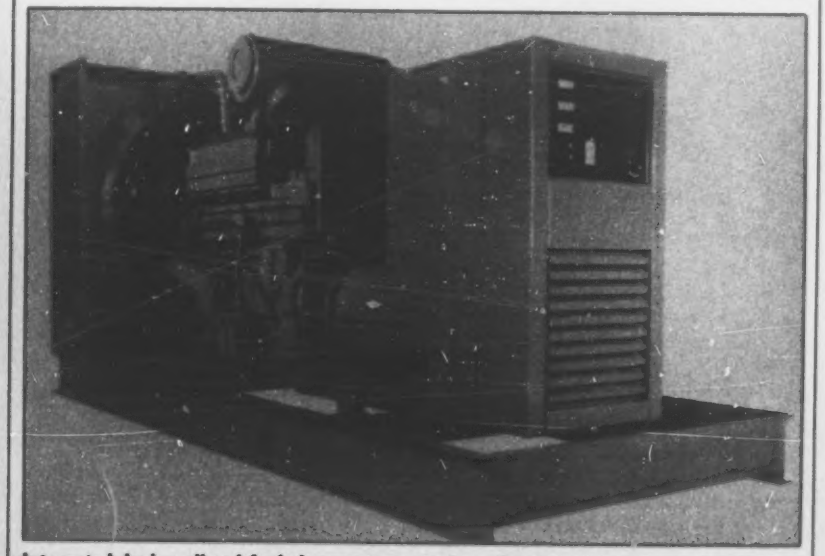
And to help the sales staff do its job well, O.K. Electric invests heavily in product and sales training. For example, Erickson says, each of the

'Our cash flow analyses include payback projections.'— Erickson

firm's six outside salespeople average 120 hours, or three full weeks a year, in product training and technical sales seminars. Each of the eight inside salespeople, he continues, spends about 60 hours, or 1½ work weeks learning about what to sell and how best to sell it.

In summarizing this five-pronged approach to servicing systems contracts, Erickson notes that "O.K. Electric is not limited to selling on price alone. Our high level of service, constant team input, and the fact that we can fill orders on a 24-hour basis combine as the best return on investment a customer can receive."

Erickson is adamant about the



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Power

value of service and technical support that are part and parcel of each systems contract O.K. Electric administers. The customer who saved $\frac{1}{4}$million and received a rebate from the public utility is a systems contract account which buys about $250,000 worth of material a year from O.K. Electric.

When queried by the customer's purchasing department about pricing levels, Erickson produced figures that, for sake of discussion, assumed someone came in and cut prices 3% below then current levels. On $250,000 worth of volume, the math would suggest that O.K. Electric's prices were $7,500 high for the year. This is precisely one-half of the rebate the customer got from its power utility, not to mention the accrued operating savings that derived from Erickson's lighting audit and savings resulting from reduced inventory; introduction of new, less costly products; and reduced downtime.

'Only 16% of all computer systems have power back-up.'—Mulcair

O.K. Electric, having committed itself to providing a full range of value added services, positions the firm, in Erickson's view, to prosper into the '90s. He believes that the Arthur Anderson report, *Facing the Forces of Change*, is correct in its projection of fewer distributors supplying more product to individual customers.

On the other hand, Erickson says that O.K. Electric will be working with the same number of vendors that they work with now, though "some of the names will change. We'll be looking for vendors who will work with us as we probe for new market niches."

In other words, O.K. Electric is one distributorship that does not seek to become all things to all users. On the contrary, the Perth Amboy, NJ firm intends to strengthen its role as specialist, one which is fully qualified to help customers get the most economy, reliability and quality out of the commercial power that drives industrial operations. □

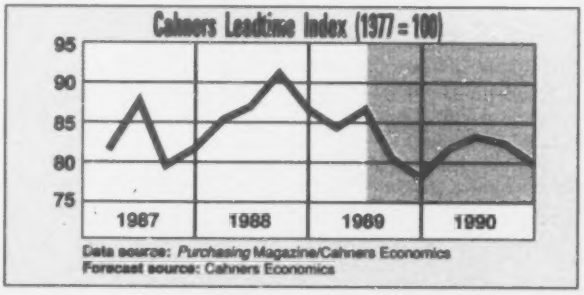
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Supply conditions ease a bit

I.D.A. members' sales continue to grow

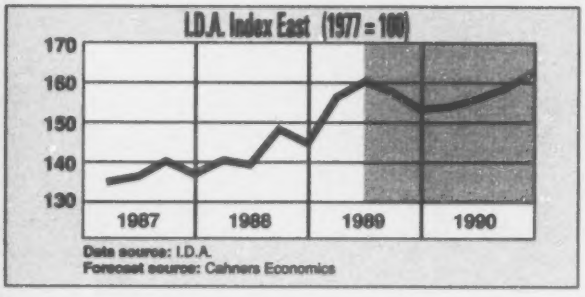
Supply conditions have eased somewhat since the beginning of the year reflecting the overall slowing of the economy. The Cahners composite leadtime index of 125 materials, which reached its peak in the second and third quarters of last year, has been falling ever since. This year, leads will be 5.8% shorter than in 1988, a welcome respite before the economy rebounds in 1991.

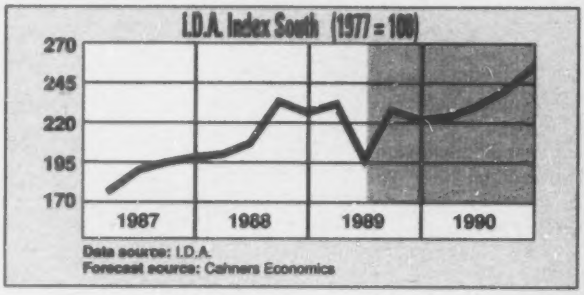


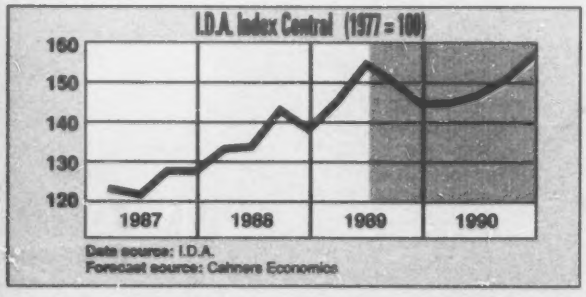
Some materials, like portable power tools and machine tools, continue to have record-long delivery terms. Not surprisingly, both categories peak late in the business cycle and are now experiencing growth in strong double digits. Others, like jigs and fixtures, and forgings, still experience long leads, with little likelihood of shortening. The majority of products, however, will see declining delivery schedules. Leadtimes for fasteners are down from over 8 weeks in the third quarter of 1988 to about 7.5 weeks now. And leadtimes for conveyors have dwindled from over 10 weeks 15 months ago to just under 8 weeks today.

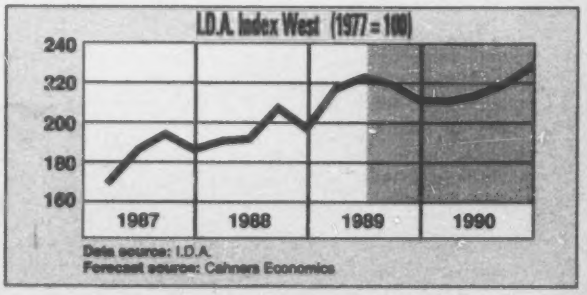
The pattern of receivables oscillates around the average of 40 days with no discernible trend. The average inventory change has exhibited no discernible movement in intensity during the past several months. However, inventory increases have become much smaller in the West, while the South has been growing from about a 1.0% increase in January to 4.9% in June. Lower increases in inventory would indicate strong economic activity and inventory decumulation.

I.D.A. members' sales continued to rise at a record pace in the first half of 1989. Compared to the same quarter a year ago, the figure for the West was up 16.5%; Central (+15.4%), and East (+15.4%). After a strong increase of 15.9% in the first quarter, sales in the South were down 5.0%. □





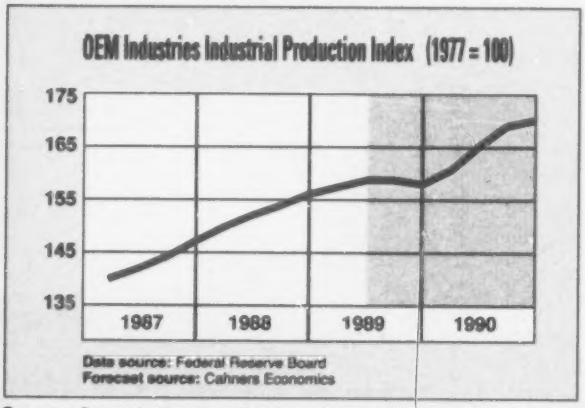




SUPPLY OUTLOOK

OEM market continues to show strength

After gaining 9.5% in 1988, shipments of the five OEM industries will show a respectable 5.4% growth this year. Next year's advance will slow to an annual rate of only 3.8% before the sector surges again at a 9.7% clip in 1991. This robust performance amid signs of rapidly falling general economic activity is not surprising given the underlying factors. While the strength of fabricated metals, nonelectrical machinery and transportation equipment during the past two years was mainly based on domestic investment demand, the most recent expansion has been based on export orders.



Output of OEM industries shows a decreasing growth rate but will finish 1989 3.4% above the level a year ago.

Inventory-to-shipments ratio has not risen much for OEM, in the past few months, oscillating around 2.0 to 2.1.

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